

**MINUTES  
BOARD OF TRUSTEES OF THE  
PUBLIC EMPLOYEES' RETIREMENT FUND  
Brown Count State Park  
1405 State Road 46 West  
Nashville, IN 47448**

**Annual Meeting  
November 6, 2006**

**REGULAR SESSION**

**Board Members Present**

Ken Cochran, Chair  
Tony Armstrong, Office of Management & Budget Designee  
Kathy Ettensohn  
Bob Welch  
Matt Murphy

**Board Members Absent**

Chuck Schalliol, Vice Chair  
Regina Overton

**Others Present**

Doug Kryscio, Mercer Investment Consulting  
Iliana Nikolova, Mercer Investment Consulting  
Laurel S. Cochennet, Mercer Investment Consulting  
Curt Smith, Strategic Investment Solutions, Inc.  
Peter Keliuotis, Strategic Investment Solutions, Inc.

**PERF Staff Present**

David Adams, Executive Director  
Shawn Wischmeier, Chief Investment Officer  
Andrea Unzicker, General Counsel  
Erin Hankins, Assistant to the Executive Director  
Jayelynn Willman, Executive Assistant to the Board

Meeting called to order at 9:16am by Chairman Cochran.

**I. Opening Remarks**

David Adams welcomed the board members, PERF staff and consultants to the annual meeting and reviewed the agenda.

**II. Chair Approvals**

Andrea Unzicker informed the board that the terms for the Chair and Vice-Chair should be elected at an annual meeting and new nominations would need to be made.

**MOTION** duly made and carried to appoint Ken Cochran as Board Chair.

*Proposed by: Kathy Ettensohn*  
*Seconded by: Matt Murphy*  
*Votes: 5 in favor, 0 opposed, 0 abstentions*

**MOTION** duly made and carried to appoint Chuck Schalliol, Director of Office of Management & Budget, as Vice-Chair of the board.

*Proposed by: Kathy Ettensohn*  
*Seconded by: Matt Murphy*  
*Votes: 5 in favor, 0 opposed, 0 abstentions*

### **III. Board Governance Overview**

Laurel Cochennet from Mercer discussed board governance with the board members and PERF staff. This review included the following:

- Best Practices
- Fiduciary Duties
- Duty of Prudence
- Duty of Loyalty
- Duty of Care
- Fiduciary Duties
- Delegation of Responsibilities

The board members inquired as to how Mercer felt the members could educate themselves in board governance and with public pension systems. Ms. Cochennet stated that Mercer supports the use of conferences and publications to educate the board on different issues public pension systems currently face.

Mr. Adams noted that PERF does not currently have a formal policy on training for the board members. Mercer suggested that the board members discuss various topics they'd like further education on and then create a calendar. Mercer can help identify conferences and publications that will benefit the board members.

Andrea Unzicker put together all Indiana Code and Indiana Administrative Code sections governing the PERF Board of Trustees and reviewed them with the board members. Ms. Unzicker also provided the following for the board members:

- Summary of all delegations made by the board
- Copies of all the Resolutions passed by the board
- Recommended draft of a Statement of Board Governance
- Copy of the Investment Policy Statement
- Contact information for board members and PERF Executive Staff

Ms. Unzicker also informed the board members that, pursuant to Indiana Administrative Code, they would need to complete the state's ethic training and provide her with a copy of their completion certificate.

#### **IV. Administrative Discussion**

Shawn Wischmeier explained that PERF currently manages cash through a reallocation account and through investment manager accounts. The amount of cash being held is important. Cash currently earns money market rates of return. To improve this situation, PERF is looking at financial futures to gain market exposure. Currently, 75-80% of pension funds use these same methods for cash management. This change will benefit PERF in the following ways:

- Eliminates opportunity cost of carrying cash at the Fund level
- Improved liquidity – better management of inflows/outflows
- Increases staff operation efficiencies
- Asset allocation stays closer to target, reducing tracking error
- Non-disruptive to portfolio managers
- PERF benefits when the markets are outperforming cash

#### **V. Alternatives Education**

##### Private Equity

Mr. Wischmeier reviewed the current alternative portfolio investments showing the amount of committed capital and invested capital. He then reviewed the private equity commitments PERF made in 2006 and the returns.

##### Hedge Funds

Peter Keliuotis with Strategic Investment Solutions (SIS) did an overview of hedge funds for the board members. The overview included:

- Description of hedge funds
- How hedge funds add value

- The current interest in hedge funds
- Other state plan hedge fund investors
- Different types of hedge funds
- Hedge fund risks
- The difference between mutual funds and hedge funds
- Implementation options
- Hedge fund-to-funds
- Multi-strategy hedge funds
- Challenges of hedge fund investing
- Historical/expected hedge fund performance
- Fee structure
- Benchmarking

#### Real Estate and Commodities

Doug Kryscio and Iliana Nikolova from Mercer discussed the benefits and risks of investing in real estate and commodities. They reviewed the following for each alternative:

- Background Information
- Pros and cons of the investment class
- Historical returns for each asset class
- Public and private market characteristics
- Benchmarking
- Risk/Reward Spectrum
- Investment Style Options

#### **VI. Closing Remarks**

Mr. Adams thanked the board members, PERF staff and consultants for today's presentations.

#### **VII. Adjournment**

Adjourned at 3:39pm.